



PRESS RELEASE

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■ Repo rate held unchanged at 0.25 per cent

The signs of a turnaround in the economy have become increasingly clear, but the recovery is from a low level. To contribute to a stable recovery, the Executive Board of the Riksbank has decided to hold the repo rate unchanged at 0.25 per cent. The repo rate is expected to remain at this low level over the coming year.

Recovery from a low level

There have been increasing signs of a recovery in the economy. For example, GDP growth during the second quarter was slightly stronger than expected both in Sweden and abroad. At the same time, the situation in the financial markets has continued to improve. But future developments are still uncertain. Sweden has been hard hit by the deep recession abroad and the recovery in economic activity is from a low level.

Low repo rate over a long period of time

The repo rate needs to be low over a long period of time to come to enable a stable recovery in the economy and to attain the inflation target of 2 per cent. The Executive Board of the Riksbank has therefore decided to hold the repo rate unchanged at 0.25 per cent. The repo rate is expected to remain at this low level until autumn 2010.

Although the situation in the financial markets has improved, it is still not normal. Supplementary measures are necessary to ensure that monetary policy has the intended effect. The Executive Board of the Riksbank has therefore decided to offer further loans totalling SEK 100 billion to the banks at a fixed interest rate and with a maturity of approximately 12 months. This should contribute to continued lower interest rates on loans to companies and households.

Stable underlying inflation

The low repo rate, together with the economic upturn abroad, will contribute to positive GDP growth in Sweden towards the end of the year. However, the labour market will lag behind and employment will not begin to rise until 2011. As economic activity recovers, the repo rate will be raised to more normal levels to attain a balanced development of the economy and an inflation rate in line with the target.

Changes in the repo rate affect mortgage rates, which are included in the consumer price index (CPI). There will thus be large fluctuations in the CPI in the future. The



■ CPIF underlying inflation rate (the CPI with a fixed mortgage rate) will on the other hand remain stable close to 2 per cent during the forecast period.

Considerable uncertainty

The situation on the financial markets has not yet normalised and the foundation for the recovery is still fragile. However, it could also be the case that the recovery comes sooner than expected. There is thus still a considerable amount of uncertainty. The future direction for monetary policy will depend, as always, on how new information on economic developments abroad and in Sweden will affect the prospects for inflation and economic activity in Sweden.

Forecasts for inflation, GDP and the repo rate

Annual percentage change, annual average

	2008	2009	2010	2011
CPI	3.4	-0.3 (-0.2)	1.2 (1.4)	3.3 (3.2)
CPIF	2.7	1.9 (1.9)	1.6 (1.9)	1.9 (2.0)
GDP	-0.2	-4.9 (-5.4)	1.9 (1.4)	3.2 (3.1)
Repo rate, per cent	4.1	0.7 (0.7)	0.3 (0.3)	1.6 (1.6)

Note. The assessment in the Monetary Policy Report in July 2009 is shown in brackets.

Sources: Statistics Sweden and the Riksbank

Forecast for the repo rate

Per cent, quarterly averages

	Q2 2009	Q3 2009	Q4 2009	Q3 2010	Q3 2011	Q3 2012
Repo rate	0.6	0.3 (0.3)	0.3 (0.3)	0.3 (0.3)	1.8 (1.8)	4.0 (4.0)

Note. The assessment in the Monetary Policy Report in July 2009 is shown in brackets.

Source: the Riksbank

Deputy Governors Lars Nyberg and Barbro Wickman-Parak supported the decision to hold the repo rate unchanged at 0.25 per cent, but entered reservations against the growth forecasts in the Monetary Policy Update and thereby the repo rate path. They motivated their stance by stating, for instance, a more positive view of how developments in the financial markets could affect economic activity both abroad and in Sweden. This would mean that the interest rate needed to be raised slightly earlier than is forecast in the Monetary Policy Update. Nor did they consider that the economy needed to be stimulated by further loans to the banks at a fixed interest rate.

Deputy Governor Lars E.O. Svensson entered a reservation against the decision and advocated cutting the repo rate to 0 per cent and a repo rate path that meant the repo rate would be kept at this level for one year ahead. Such a repo rate path entailed a better-balanced monetary policy, with lower unemployment, higher resource utilisation and a CPIF inflation rate closer to the target.

The minutes from the Executive Board's monetary policy discussion will be published on 16 September. The decision on the repo rate will apply with effect from 9 September. A press conference with Governor Stefan Ingves and Anders Vredin, Head of the Monetary Policy Department, will be held today at 11 a.m. in the Riksbank. Entry via the bank's main entrance, Brunkebergstorg 11. Press cards must be shown. The press conference will be broadcast live on the Riksbank's website, www.riksbank.se/.